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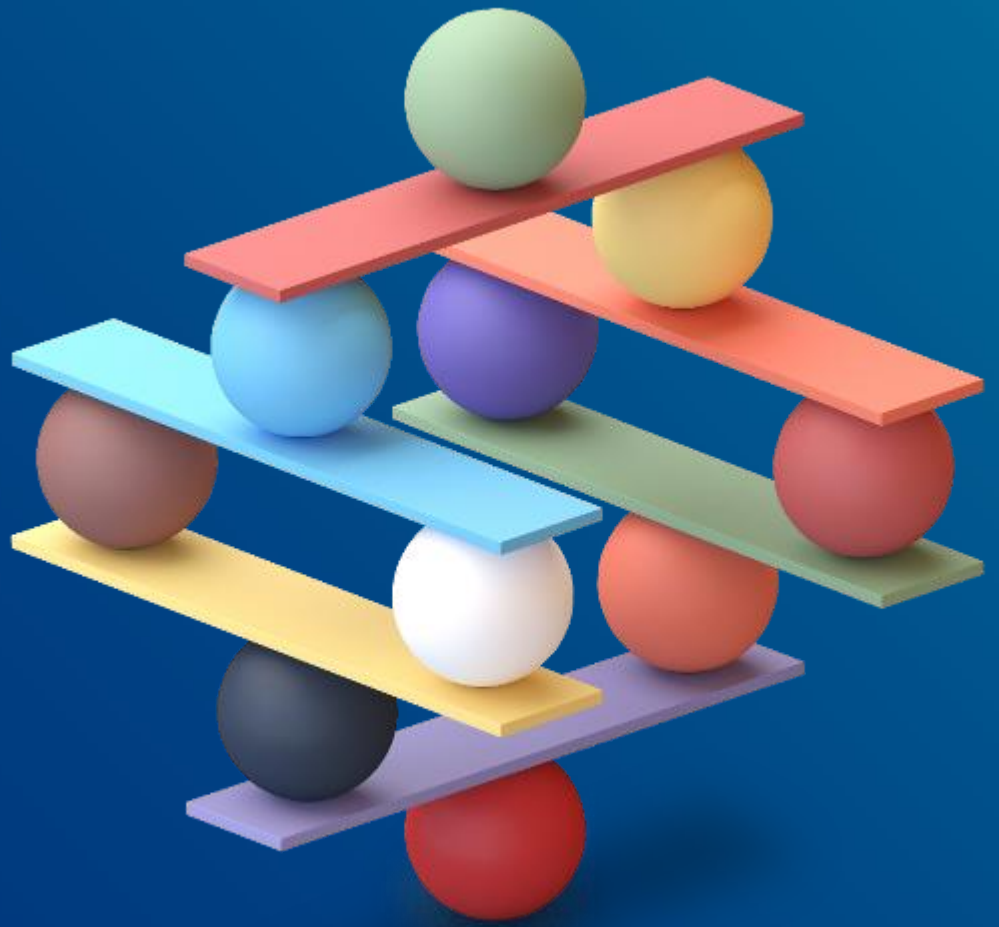
Actuarial Rate-Setting 101



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Agenda

01 Capitated Rate-Setting Introduction

02 FY2024 Cardinal Care Rate Development

03 Matching Payment to Risk

04 Timeline Considerations

Capitated Rate-Setting Introduction

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Capitated Rate-Setting Introduction
Understanding Actuarial Soundness

- What are **actuarially sound** rates?

  "Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for ***all reasonable, appropriate, and attainable costs.****"* [1]

- Why must Medicaid capitation rates be actuarially sound?
  - Medicaid managed care capitation rates must be actuarially sound in order to qualify for ***Federal Financial Participation***. [2]
  - These regulations require that capitation rates:
    - Are developed in accordance with generally accepted actuarial principles and practices
    - Are appropriate for the populations to be covered and the services under the contract
    - Are certified as meeting these requirements by actuaries who meet the qualification standards established by the American Academy of Actuaries (AAA)

1. Full definition included in Actuarial Standard of Practice No. 49, March 2015, "Medicaid Managed Care Capitation Rate Development and Certification"
2. Refer to 42 CFR 438.4

Capitated Rate-Setting Introduction
Illustrative Example

Suppose Mary, John, and Sam are representative of who the managed care program will cover, and we group them into Rating Group #1

Experience data is:

- Mary had $4,000 in medical and 10 months of eligibility ($400.00 PMPM)
- John had $3,600 in medical and 12 months of eligibility ($300.00 PMPM)
- Sam had $2,750 in medical and 11 months of eligibility ($250.00 PMPM)

Medical Component
$10,350/33 months = $313.64 PMPM

Administrative Component
9.0% of total rate = $31.54 PMPM

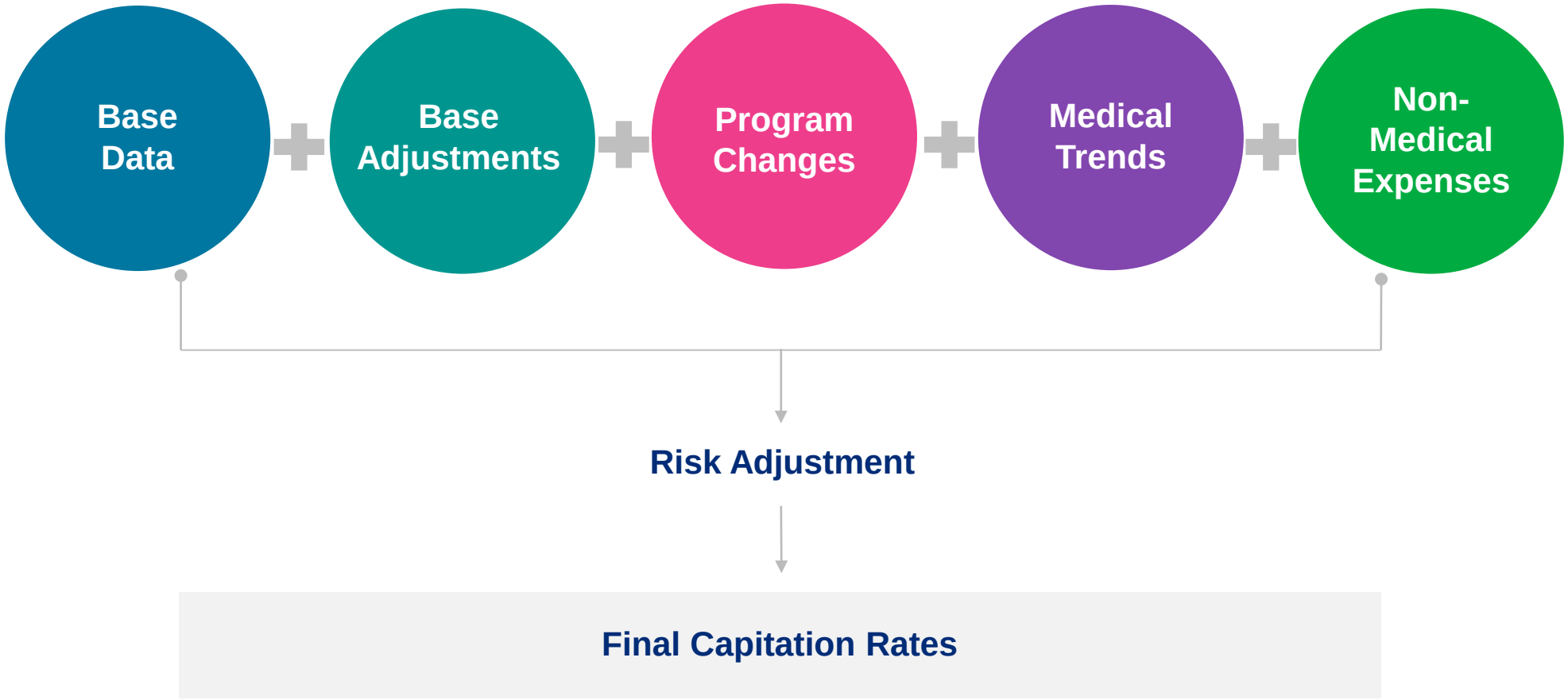
Underwriting Gain
1.5% of total rate = $5.25 PMPM

Rating Group #1 Final PMPM
$350.43

If Mary, John, and Sam were all enrolled in the same MCO, the MCO would be paid the same capitation rate of $350.43 for each member month

Capitated Rate-Setting Introduction

Overview of the Actuarial Rate-Setting Process



FY2024 Cardinal Care Rate Development

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FY2024 Cardinal Care Rate Development

Base Data

- Encounter data reflects actual medical expense for the eligible population enrolled in the Cardinal Care managed care program
- Determined that CY2021 data was appropriate to use as the basis for FY2024 rate development

Base Data Time Periods and Data Sources	
FY2024 (Cardinal Care – Acute, Cardinal Care – MLTSS, FAMIS, FAMIS MOMS)	CY2021 dates of service with runout through June 2022
FY2023 (Medallion, CCC Plus, FAMIS, FAMIS MOMS)	CY2018 and CY2019 dates of service with runout through September 2021 for Non-Expansion populations CY2019 dates of service with runout through September 2021 for Expansion populations

FY2024 Cardinal Care Rate Development

Base Data Adjustment Examples

Pharmacy Cost and Utilization

- Pharmacy clinical appropriateness utilization edits
- Appropriate supporting medical diagnosis

Removal of COVID-19 Vaccine Administration Costs

Incurred but not Reported (IBNR) Claims

FY2024 Cardinal Care Rate Development
Program Changes

Rating adjustments are necessary to account for program changes

- Program changes may result from:
  - Federal legislation and/or regulatory changes
  - State legislation or budget action
  - Administrative decisions
  - Changes in the marketplace
- Impacts should consider state expectations or budget-forecasts

FY2024 Cardinal Care Rate Development

Program Change Examples

Key Base Program Changes

- Fee Schedule Changes
- COVID-19 Considerations

Updated Prospective Program Changes

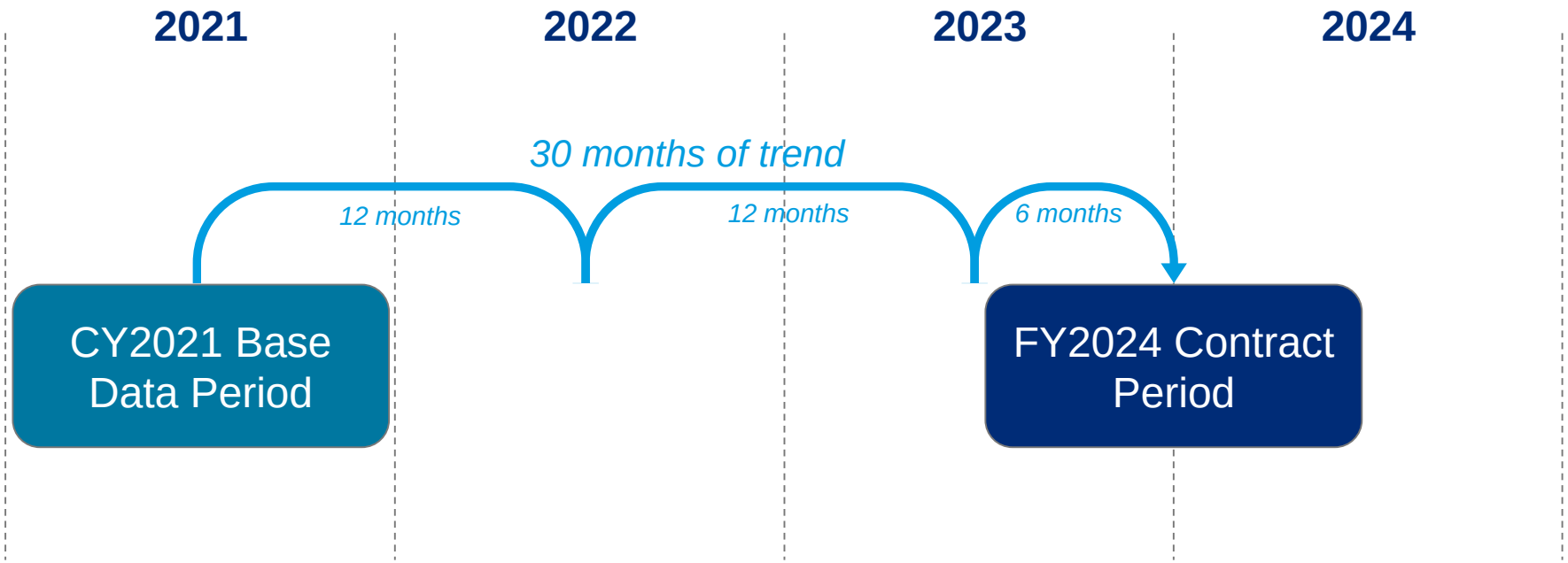
- Pharmacy Considerations – Common Core Formulary, High Cost Drugs, Rebates
- NH Per Diem Add-On (MLTSS only)
- FAMIS MOMS Postpartum Extension

New Prospective Program Changes

- Demographic Adjustments – PHE Enrollment Acuity, TPL Mix, Maternity Kick Population
- Cardinal Care Eligibility Adjustments

FY2024 Cardinal Care Rate Development
Medical Trends

- Trend is typically the most significant adjustment applied in rate-setting
- Trend is applied from the midpoint of the base period to the midpoint of the contract period:
  - For FY2024, this will be from 7/1/2021 to 1/1/2024 (30 months)
  - Trends are expressed as an annualized average rate (X.X%)



FY2024 Cardinal Care Rate Development

Trend Considerations

Considerations included in Mercer's development of medical and pharmacy trend factors

Observed Experience

- MCO encounter data trends
- MCO financial report trends

Market Experience

- Trends observed in other state Medicaid programs covering similar populations and services
- Drug pipeline including specialty drug approvals, patent protection, etc.

Industry Reports

- Other health care industry reports, such as Health Care Cost Institute
- Pharmacy and industry reports, such as Express Scripts

Federal Reports

- National Health Expenditures from the Office of the Actuary
- Bureau of Labor Statistics Consumer Price Index data

FY2024 Cardinal Care Rate Development

Non-Medical Expenses

- **Administration and Care Management**
  - Expected costs of MCOs to administer the program (e.g., MCO staffing, rent, care management, IT systems, provider network, finance, reporting), as required by the contract
  - Costs for staff to support Care Management activities as required by the contract
  - Based on experience reported to Bureau of Insurance and DMAS, which is audited
    - FY2024 Cardinal Care final rates will use MCO-reported costs from 2022
- **Underwriting Gain**
  - A small portion of the total capitation rate to make the program a sustainable business venture for the risk-bearing MCOs
  - Includes consideration for risk, capital requirements, and provisions for margin

Matching Payment to Risk

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Matching Payment to Risk

Rate Structure, Risk Mitigation and Risk Adjustment

Rating categories allow for differentiation of capitation payments by variables such as age and/or gender, geographic region, category of aid, Medicare eligibility status, Waiver eligibility status, etc.

Rating categories may differ by Medicaid managed care program

Kick payments are used to improve the matching of payment to risks that are not well addressed by other mechanisms

Costs reimbursed through a kick payment are removed from the base capitation rates

Intended to mitigate risk associated with excessive pharmacy claims between MCOs

Pool is budget-neutral overall with funds redistributed between MCOs based on actual pharmacy claims exceeding the $200k attachment point

Health status-based risk adjustment modifies base capitation payments by MCO based on an objective measurement of the acuity of their enrolled members

FY2024 Cardinal Care rates will be risk adjusted using CDPS+Rx, a commercial risk adjustment methodology, and a behavioral health risk adjustment for select rate cells

Timeline Considerations

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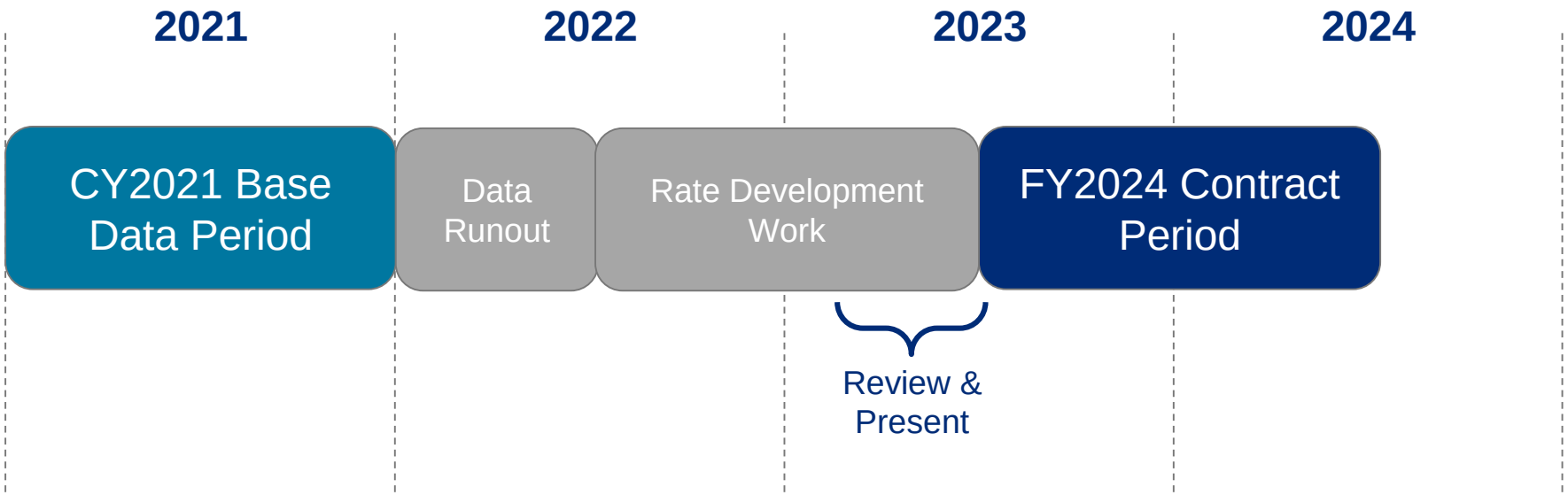
Timeline Considerations

Data Considerations

- The rate-setting timeline balances the available data, time required to develop rates, and the review period needed for various stakeholders in the process
- Decisions and policy details related to upcoming changes in the program are needed in advance of the primary working period in order to be reflected in the upcoming rates



Mercer

Mercer Government Human Services Consulting (Mercer), as part of Mercer Health & Benefits LLC, developed the FY2024 Virginia Managed Care rates in a manner and process consistent with the expectations and parameters described in Actuarial Standards of Practice No. 49 (Medicaid Managed Care Capitation Rate Development) and Centers for Medicare & Medicaid Services requirements under 42 CFR § 438.5. Rates developed by Mercer for these programs for the FY2024 rating period are actuarial projections of future contingent events, and actual results will differ from these projections. Mercer based its projections on knowledge and information that was available at the time of the analysis. Mercer's professional opinion is that the capitation rates are reasonable, appropriate and attainable, were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medicaid covered population and services under the Virginia Medicaid Managed Care contract.

The FY2024 Virginia Managed Care Rates were prepared by:

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A business of Marsh McLennan